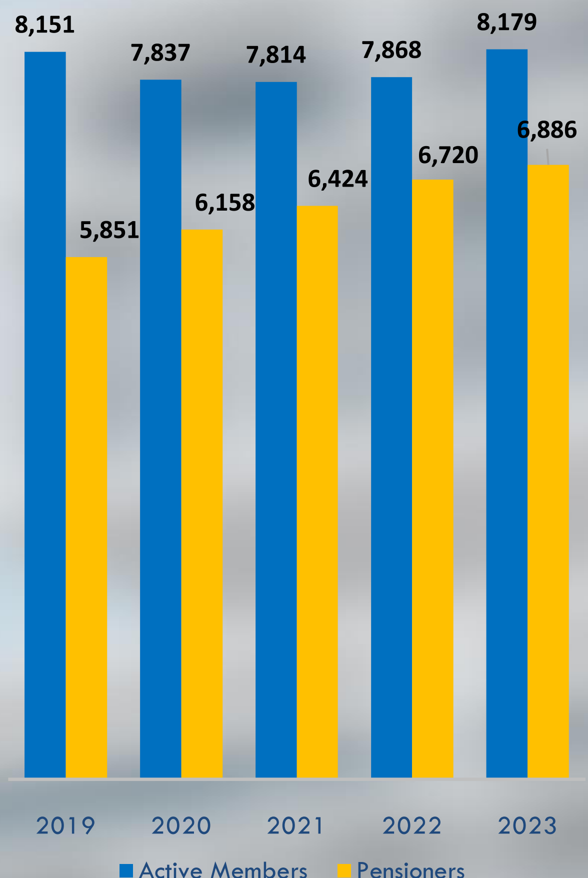
Communiqué
Spring 2024

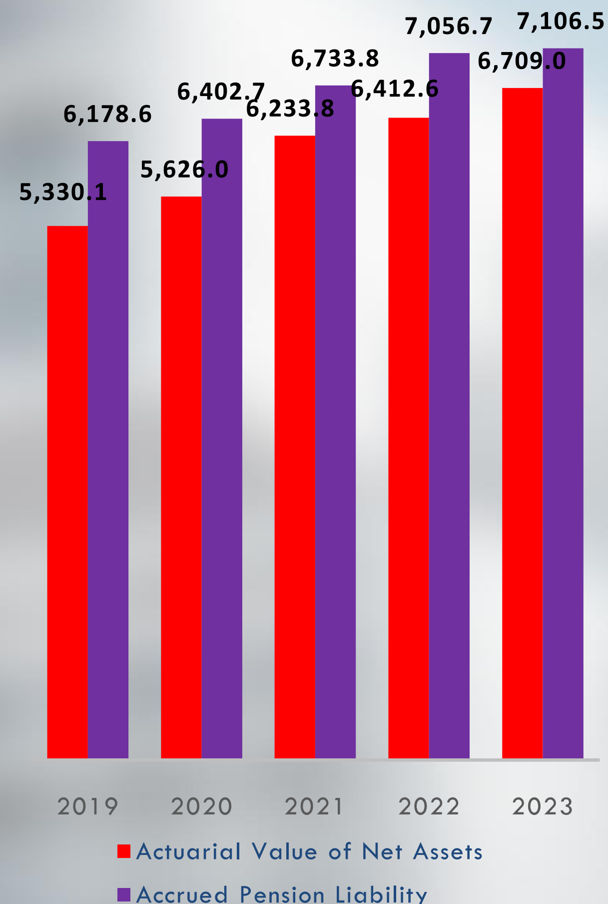
UNIVERSITIES ACADEMIC PENSION PLAN

The UAPP's 2023 Annual Report has been released and this issue of the Communiqué provides financial, statistical, and other summary highlights of the Report. The full Annual Report is available at uapp.ca/publications/annual-reports/.

Active and Pensioner Member Totals



Assets and Liabilities
($ millions)



Contributions and Benefit Payments plus Expenses
($ millions)

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Financial Position of the Plan

The Plan's Assets

The market value of the Plan's assets grew to $6,576.2 million at the end of 2023, representing an increase of 9.3 per cent from the value of $6,014.1 million a year earlier. The Fund's investments returned 10.5 per cent through the year, following a return of -8.6 per cent in 2022. Contributions received in 2023 trailed benefit payments by $65 million, a slightly smaller gap than in the prior year. The net growth in the Fund contributed to the funded ratio increasing from 90.9 per cent at December 31, 2022 to 94.4 per cent one year later. On an actuarial value basis, the Plan has now attained its healthiest financial position since having the same funded ratio at December 31, 2000.

	December 31, 2023			December 31, 2022		
	Pre-1992	Post-1991	Total	Pre-1992	Post-1991	Total
Fair Value of Net Assets	427.2	6,149.0	6,576.2	464.3	5,549.8	6,014.1
Actuarial Adjustment	11.6	121.2	132.8	28.8	369.7	398.5
Actuarial Value of Net Assets	438.8	6,270.2	6,709.0	493.1	5,919.5	6,412.6
Accrued Pension Liability	1,342.3	5,764.2	7,106.5	1,359.2	5,697.5	7,056.7
Actuarial (Deficiency) Surplus	(903.5)	506.0	(397.5)	(866.1)	222.0	(644.1)
Funded Ratio	32.7%	108.8%	94.4%	36.3%	103.9%	90.9%

(all figures in $millions)

The funded ratio is determined by first calculating the actuarial value of assets, which involves averaging the market value with what the asset value would be had the assets earned the assumed rate of return from the market value as at each of the two calendar year-ends preceding the valuation date. For both 2022 and 2023, this smoothing adjustment resulted in the actuarial value of assets exceeding the market value, creating a negative reserve. The excellent Fund performance of 2023 decreased the size of this reserve from 2022. Continued positive returns in 2024 would lead to a further reduction of this reserve, which means the actuarial value of assets could move closer to the market value of assets. In other words, the smoothing adjustment is reducing the volatility of asset values, just as it is intended to do.

The actuarial value of the Fund increased to $6,709.0 million in 2023 from $6,412.6 million at the end of 2022. At December 31, 2023, this value is $132.8 million greater than the market value, after being $398.5 million greater a year ago.

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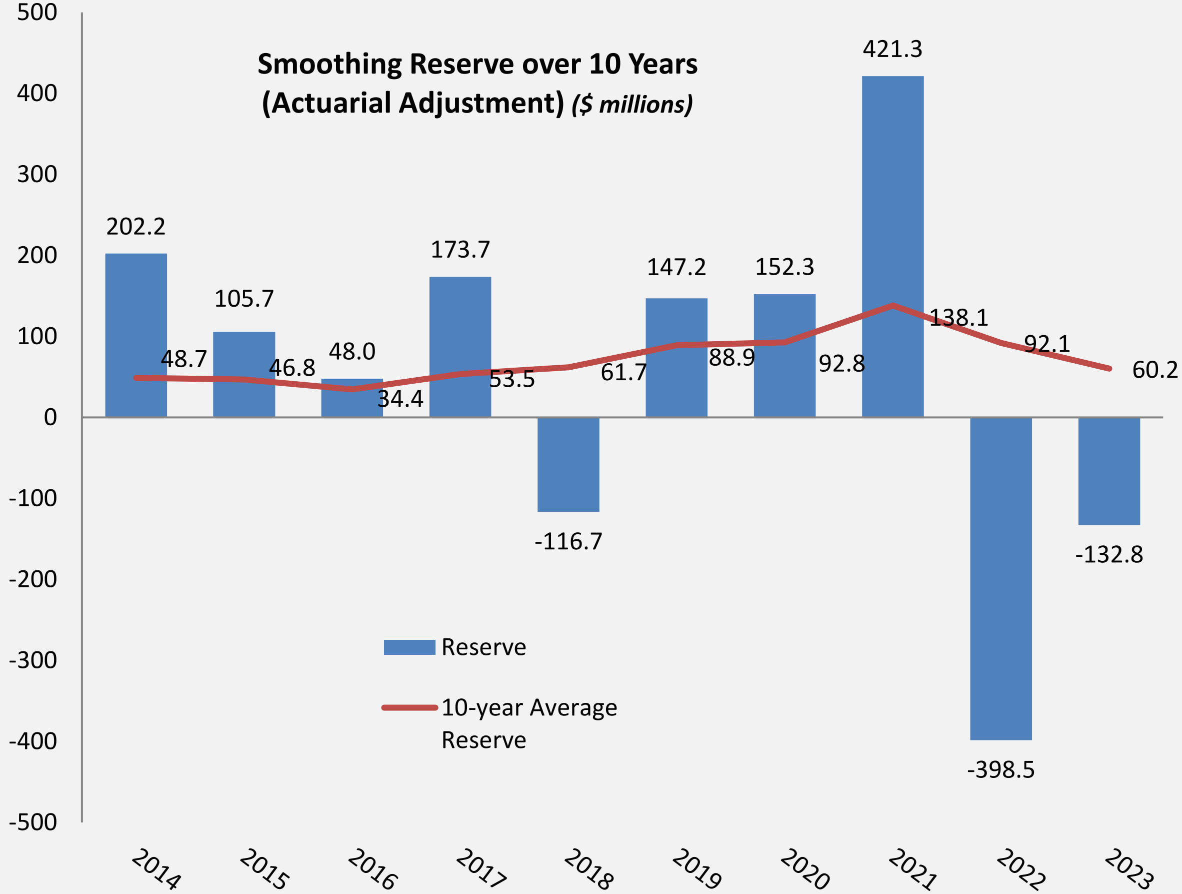

During 2023, the UAPP engaged the assistance of its investment consultant to undertake an extensive project in the search for new investment managers to take on the active management of the Fund’s public equity portfolio after three years of passive investment by State Street Global Advisors. At December 31, 2023, these public equities comprised 40.1 per cent of the entire portfolio or $2,629.5 million.

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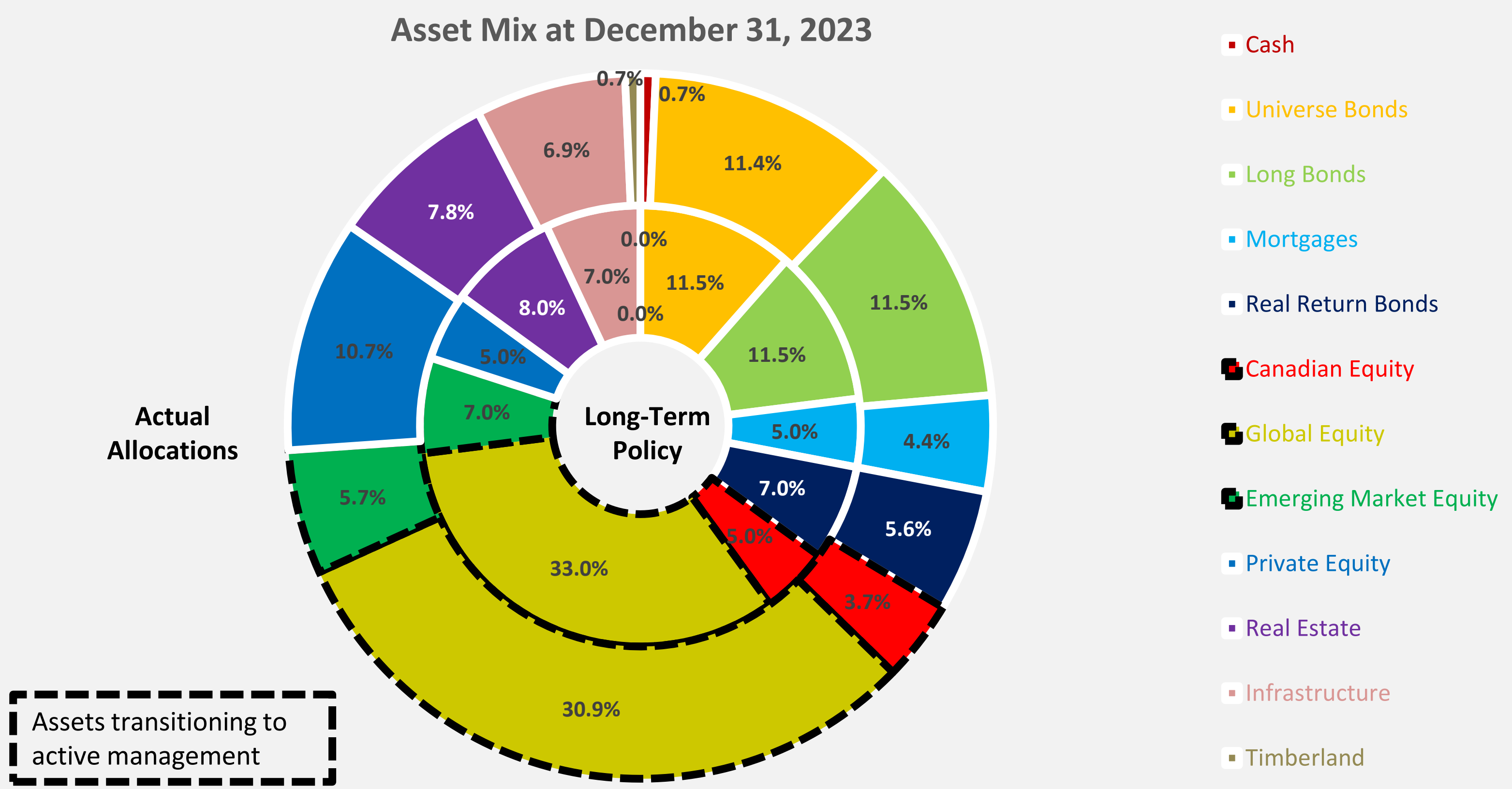
The manager search was conducted in five parts:

- The first three parts related to the global equity portion of the Fund. At December 31, 2023, this included 30.7 per cent of the entire portfolio or $2,012.0 million. As the largest of the mandates, it was split into three separate searches for managers that provided different management styles: core, value, and growth. This portfolio will be split between the successful managers into three equal parts.

- The fourth and fifth parts of the search related to the Canadian equity and emerging market equity portions of the Fund. Due to their smaller size, these searches were conducted simultaneously. At December 31, 2023, the Canadian equity portfolio made up 3.7 per cent of the total Fund or $243.1 million and the emerging market equity portfolio comprised 5.7 per cent of the total Fund or $374.4 million. A manager was hired for each mandate.



After consideration of the universe of managers in these asset classes, the investment consultant provided long lists of candidates for each of the five searches, from which UAPP selected three managers for short list presentations. Thorough analysis by Plan management resulted in the ultimate selection of five managers. Management carefully evaluated each shortlisted candidate through key criteria such as an assessment of the firm itself, the people representing the firm and their professional investment experience, the manager's investment philosophy and process for portfolio construction, the prospective fund's recent performance, and fees charged by the firm. Legal reviews of documentation continued with all managers through the end of 2023 and into the new year. It is expected that the transition of funds from State Street Global Advisors to the new managers will commence by spring 2024. Completion of this process will depend on the outcome of the legal reviews though management expects all aspects of the transition to be finalized during 2024.

The Plan's Liabilities

The Plan's accrued liabilities are $7,106.5 million compared to $7,056.7 million reported at the end of 2022. This change represents growth of 0.7 per cent over the year. Note that for the purposes of the previous year's calculation, the December 31, 2022 value was extrapolated over two years from the December 31, 2020 valuation. This year's liability was extrapolated from an updated actuarial valuation as at December 31, 2022 which was completed during 2023.

UAPP has historically undertaken an actuarial valuation on a biennial basis, allowing the Board to frequently evaluate and adjust the actuarial assumptions used in the liability calculations. These assumptions are long-term in nature but require regular fine-tuning to ensure they remain appropriate. Given its overall impact, the discount rate is a primary focus of discussion as part of every valuation. With recent sharp increases in interest rates, the Board was in the position of considering a rise in the Plan's discount rate, a move not taken in some time. During the December 31, 2022 valuation process, the assumptions were updated with the discount rate changing from 5.30 per cent to 5.62 per cent. This valuation was the first since December 31, 2000 that the discount rate was increased, though as recently as the December 31, 2014 valuation the discount rate was still higher than it is today.

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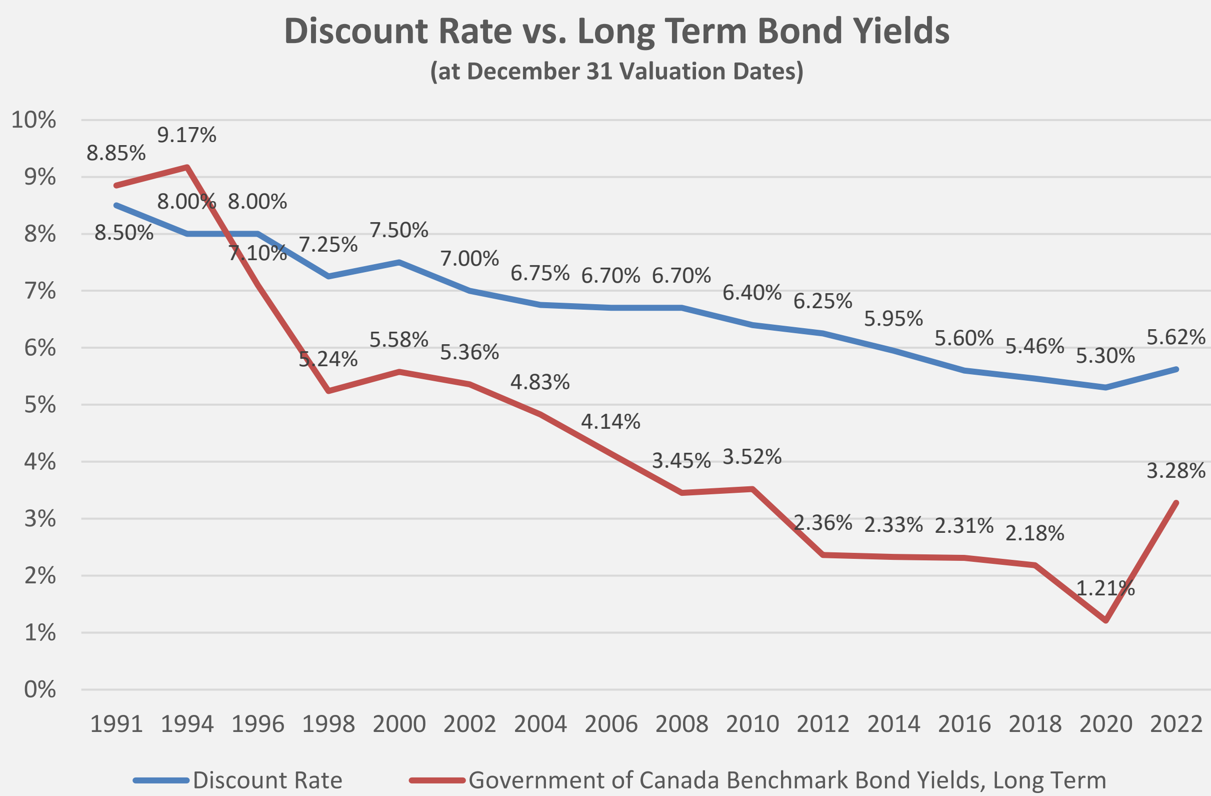

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The accrued liabilities held in the Plan are calculated by finding the present value of all future pension payments currently owed to members. All else being equal, a higher discount rate will generate a lower liability. By using a higher discount rate this valuation compared to the previous valuation, the Plan's liabilities are lower than they would have been had the discount rate not been increased. While long-term bond yields rose sharply since the last valuation, the Board elected to recognize only a portion of the increase as they also chose to expand the size of the margin built into the discount rate. This decision was taken to provide additional buffer from adverse experience. In general, defined benefit pension plans across Canada are currently in better financial positions due to the high interest rate environment.

While considering the assumption set adopted in the actuarial valuation, the Board reviewed the subsequent impact on contribution rates. The UAPP Funding Policy notes that the Board's long-term goal is to ensure the provision of pension benefits to members and their beneficiaries. Since the cost of the Plan, including benefits and administrative and investment expenses, are primarily paid for by the employers and members, stable contribution rates is a key secondary objective. With this in mind and with the Plan in a healthy financial position, the Board strove to keep contribution rates level. This goal was met by maintaining the overall total contribution rate at 26.88 per cent combined for members and employers. To account for changes in the Year's Maximum Pensionable Earnings (YMPE), the pensionable salary cap, and the demographics of Plan membership since the last actuarial valuation, the contribution rates below the YMPE, above the YMPE but below the pensionable salary cap, and above the pensionable salary cap have all increased slightly.

With 17,884 total members in the Plan, UAPP sends pensions across Canada and around the world. Many members come from outside Alberta to work at UAPP's participating employers, later returning home. Other members simply retire outside the province. Nevertheless, a significant majority of the Plan's liabilities are held by members still residing in Alberta.

In the December 31, 2022 actuarial valuation, liabilities for the active members comprised 39.2 per cent of total liabilities, down from 43.1 per cent of total liabilities at the December 31, 2020 actuarial valuation. The decrease in the share of the total liability by active members is in part due to the higher discount rate. Because the start of their pensions is deferred to retirement, active member liabilities are more impacted by higher rates than retired member liabilities for whom the pensions are already in pay.

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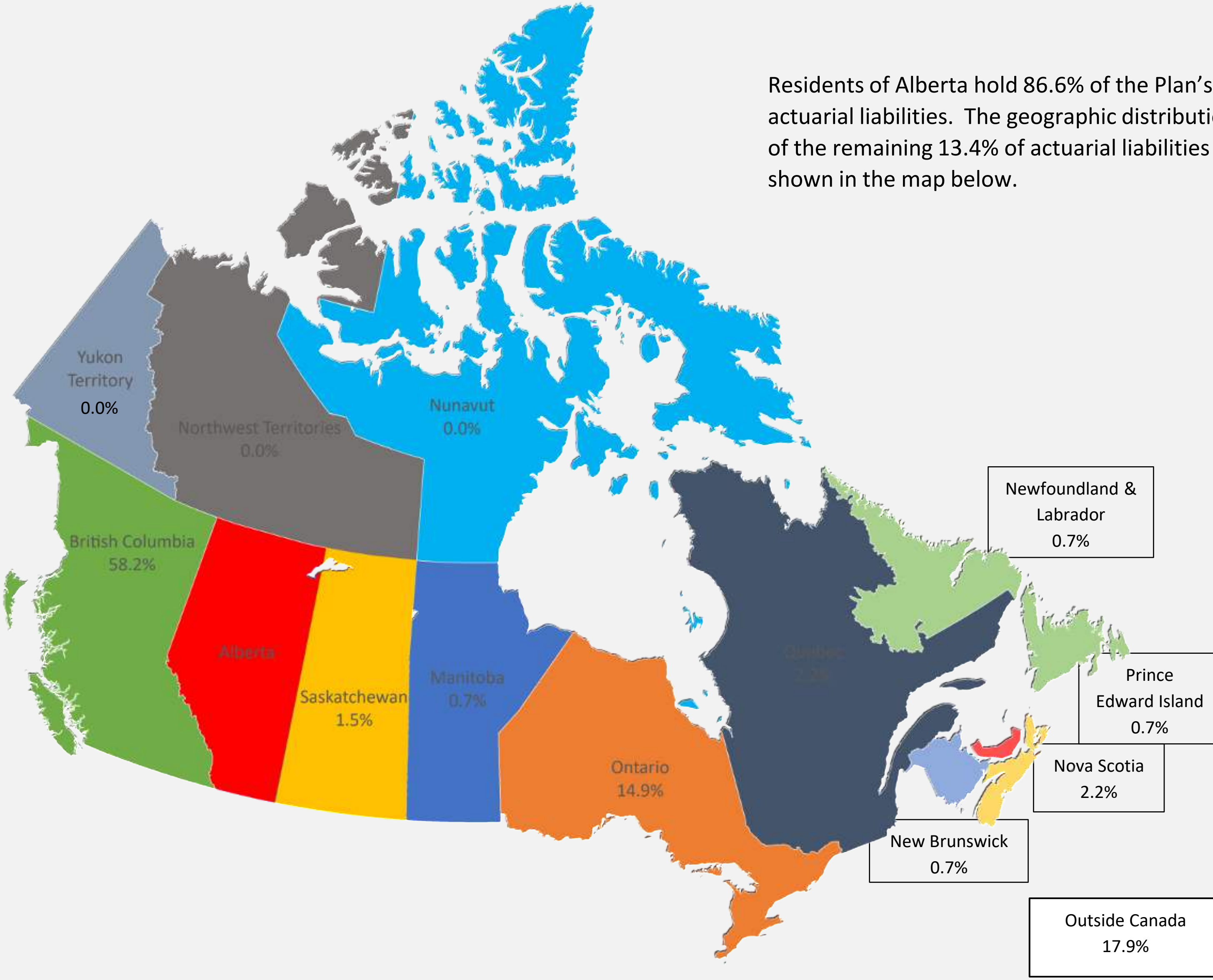
December 31, 2022 Actuarial Liabilities by Province of Residence Other Than Alberta

Residents of Alberta hold 86.6% of the Plan's actuarial liabilities. The geographic distribution of the remaining 13.4% of actuarial liabilities is shown in the map below.



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The Plan's Funded Ratio

The financial position of the Plan has improved with the higher discount rate leading to an accrued liability that is lower than it would be had the previous discount rate still been used. Also as previously noted, the financial position further improved by positive investment returns during 2023. As a result, the Plan's funded ratio on a market-value basis in 2023 increased to 92.5 per cent from 85.2 per cent in 2022. The funded ratio on an actuarial value basis is 94.4 per cent compared to 90.9 per cent last year.

Because the Government of Alberta shares in the funding of the unfunded liability that was established in the Plan at December 31, 1991 and since this deficit remains today, the pre-1992 portion of assets and liabilities is identified separately in UAPP's financial statements. At December 31, 2023, the funded ratio of the pre-1992 segment of the Plan is 31.8 per cent on a market value basis (2022: 34.2 per cent), and the funded ratio on an actuarial value basis is 32.7 per cent (2022: 36.3 per cent). Note that, unlike for the total Plan, the pre-1992 funded ratios have declined from last year. The liabilities for this group relate to older members since the pensions were accrued prior to 1992. As such, the increase in the discount rate for this group is much less impactful than for the post-1991 portion of the Plan due to the shorter future life expectancy of these members.

The post-1991 portion of the Plan continues to be in a surplus position. The 2023 funded ratio for assets and liabilities from this period are 106.7 per cent on a market value basis (2022: 97.4 per cent) and 108.8 per cent on an actuarial value basis (2022: 103.9 per cent). The liabilities for this group are significantly impacted by the higher discount rate due to the younger age of members in this cohort.

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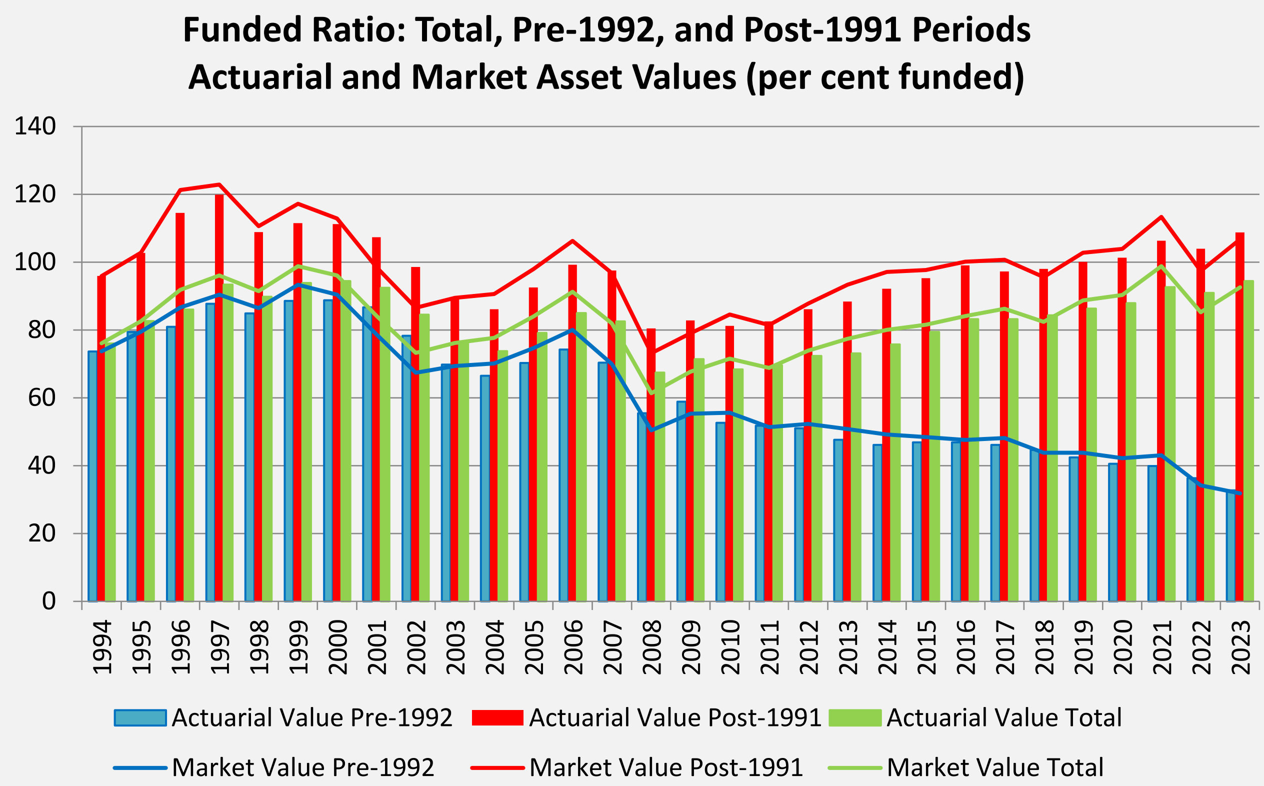

Unfortunately, the funded ratios for the pre-1992 epoch are reaching all-time lows, largely attributed to the long amortization of that deficit to December 31, 2043. Other factors in play include two trends in particular that have occurred since that unfunded liability was first recognized: significant declines in discount rates and substantial improvements in life expectancy. These factors have presented and will continue to present challenges for the financial position of this period. The good news is that the financial position of the post-1991 portion and, most importantly, the total Plan are at the highest point on an actuarial value basis since near the start of this century at December 31, 2000.

Looking to the Future

During 2023, UAPP adopted a new Statement of Investment Policies and Goals (SIP&G) to be effective January 1, 2024 which incorporates updates to the Board's investment beliefs. The beliefs serve several purposes, including helping to define the Plan's investment goals and objectives and providing some continuity as Board membership evolves over time. This particular update is timely as the Plan grows its investment manager roster from four firms to seven. This increase in the number of managers is being done as a significant portion of the Plan's investments return to active management and this change will play a prominent role in future Fund performance. The transition of assets to the new managers is expected to commence by spring 2024 and be completed within the year.

The Board took a closer look at pension risk management in 2023 and further exploration of this subject is planned for UAPP in 2024. The Plan's investments continue to form the largest risks faced by the Plan. The new guideline noted in the Message from the Chair will provide the Plan with additional tools for considering specific risk categories such as outsourcing, cyber security, environmental, social, and governance issues, leverage, and investment risk.

One of the most efficient ways for UAPP to communicate with its beneficiaries and other stakeholders is through its website. For almost ten years, uapp.ca remained largely unchanged except for the regular updating of important publications like the annual report, quarterly Communiques, annual Member Handbook, actuarial valuation reports, and SIP&G. However, the programming language used in the platform behind the scenes was not user-friendly, so changes required third party assistance. UAPP hired a new web developer in 2023 to relaunch the website with a more accessible platform that allows greater flexibility for Plan management. An updated version of the website went live in early 2024.

More Information

Retirement Planner

Active members of UAPP have automatic access to the Retirement Planner, only needing to register. The link is on UAPP's home page, scrolling down to Key Information.

Within the Retirement Planner, you can perform retirement calculations by running an unlimited number of pension estimates, adjusting for important details like retirement dates and future salary adjustments. You can also access your Annual Member Statement. If you have questions about your pension or the Retirement Planner, please call the UAPP Administration Centre toll-free at 1.866.709.2092.

Publications

The UAPP website includes a host of publications intended to assist members in understanding their pension plan. In addition to this Communique, these publications include the Member Handbook, Annual Report, and several Information Sheets, covering a range of topics such as New Member Basics, Pension Options, Death or Leaving the Plan Before Retirement, Preparing For Retirement, and the Retired Member Guide.

Contact Us

If you terminate employment and leave your funds in UAPP, ensure we have your current address and beneficiary information. Email us to update your address. Beneficiaries can be updated by using the UAPP Designation of Spouse and Non-Spouse Beneficiary form. Make sure your family and executor know you are entitled to a benefit from the UAPP.

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